



OFFICE OF  
INSPECTOR GENERAL

DEPARTMENT OF THE TREASURY  
WASHINGTON, DC 20220

December 13, 1999

The Honorable Richard K. Armey  
Majority Leader  
House of Representatives  
Washington, DC 20515

Dear Congressman Armey:

I am writing with regard to your letter dated September 22, 1999.

The issues that we have identified below are both Department-wide and bureau-specific. Treasury has made progress in many of these areas or has initiatives in place to address these concerns. However, these eight issues are extremely important to the successful accomplishment of the Department's mission:

- Treasury's Information Technology Investment Management;
- Money Laundering/Bank Secrecy;
- Information Security;
- Violent Crime/Gun Control;
- Trade Enforcement and Narcotics Interdiction by Customs;
- Revenue Protection;
- Implementation of the Government Performance and Results Act; and
- Financial Management at Treasury/Compliance with FFMIA

Due in part to Treasury's progress in addressing previously reported serious management challenges, we have made the following changes:

- We referred two IRS specific related challenges to the new Office of Inspector General for Tax Administration. These challenges were Financial Management at the IRS, and Protecting Taxpayer Rights and Compliance Activities;

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- We are no longer reporting the implementation of Treasury's Debt Collection Initiatives and Electronic Funds Transfer/Electronic Benefits Transfer as significant management challenges. (See Enclosure 1, page 12).
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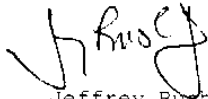
Based on our work and knowledge of Treasury's operations, we have not identified any programs that in our judgement have had questionable success in achieving results. As part of our mission in evaluating/reviewing the operations and programs at Treasury, we continue to make recommendations to improve the effectiveness and efficiency of these programs and follow up to ensure that corrective action was taken.

Enclosure 1 summarizes each of the most serious management challenges in Treasury and the related ongoing and planned audit work.

Enclosure 2 provides a list of audit reports, issued between January 1, 1998, and September 30, 1999, that correspond to the eight management challenges listed above. We have identified in bold type those reports that contain significant "open" recommendations and summarized these recommendations below the report title.

A similar response will be sent to Chairmen Burton, Thompson, Domenici and Kasich. If you need additional information, you may contact me at (202) 622-1090 or a member of your staff may contact Mr. Dennis S. Schindel, Assistant Inspector General for Audit at (202) 927-5400.

Sincerely,



Jeffrey Rush, Jr.  
Inspector General

Enclosures (2)



OFFICE OF  
INSPECTOR GENERAL

DEPARTMENT OF THE TREASURY  
WASHINGTON, DC 20220

December 13, 1999

The Honorable Dan Burton  
Chairman  
Committee on Government Reform  
House of Representatives  
Washington, DC 20515

Dear Mr. Chairman:

I am writing with regard to your letter dated September 22, 1999.

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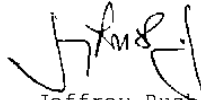
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Sincerely,



Jeffrey Rush, Jr.  
Inspector General

Enclosures (2)

cc: The Honorable Henry A. Waxman  
Ranking Minority Member



OFFICE OF  
INSPECTOR GENERAL

DEPARTMENT OF THE TREASURY  
WASHINGTON, DC 20220

December 13, 1999

The Honorable Pete V. Domenici  
Chairman  
Committee on Budget  
United States Senate  
Washington, DC 20510

Dear Mr. Chairman:

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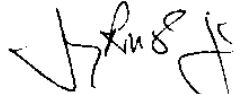
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Sincerely,



Jeffrey Rush, Jr.  
Inspector General

Enclosures (2)

cc: The Honorable Frank R. Lautenberg  
Ranking Minority Member



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INSPECTOR GENERAL

DEPARTMENT OF THE TREASURY  
WASHINGTON, DC 20220

December 13, 1999

The Honorable John R. Kasich  
Chairman  
Committee on Budget  
House of Representatives  
Washington, DC 20515

Dear Mr. Chairman:

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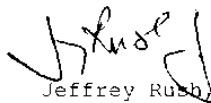
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Sincerely,

  
Jeffrey Rush, Jr.  
Inspector General

Enclosures (2)

cc: The Honorable John M. Spratt, Jr.  
Ranking Minority Member





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INSPECTOR GENERAL

DEPARTMENT OF THE TREASURY  
WASHINGTON, DC 20220

December 13, 1999

The Honorable Fred Thompson  
Chairman  
Committee on Governmental Affairs  
United States Senate  
Washington, DC 20510

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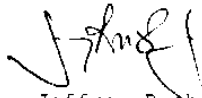
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Sincerely,



Jeffrey Rush, Jr.  
Inspector General

Enclosures (2)

cc: The Honorable Joseph I. Lieberman  
Ranking Minority Member

## **SUMMARY OF THE MOST SERIOUS MANAGEMENT CHALLENGES AND RELATED ONGOING AND PLANNED WORK**

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### **TREASURY'S INFORMATION TECHNOLOGY INVESTMENT MANAGEMENT**

Effective compliance with the provisions of the Clinger-Cohen Act is essential in order for the Department of the Treasury (Treasury) to manage the nearly \$2 billion it annually invests in information technology (IT) initiatives. However, meeting the mandates of this Act requires that Treasury and individual bureaus improve management practices in the areas of capital planning, investment controls, project management and, systems development. Additionally, performance measures need to be established for IT. Treasury and the bureaus have implemented a number of the Clinger-Cohen requirements.

Most major initiatives like Tax System Modernization and Automated Commercial Environment have been slowed by the need to focus on Year 2000 Compliance. Once the Year 2000 problem is resolved, Treasury will need to focus on bringing these and other major projects to successful completion. Shortcomings in system development capabilities and oversight processes need to be addressed in order for that to happen. New mechanisms have been established, such as investment review boards. However, it is too early to tell whether these and other new controls will result in more effective and efficient delivery of major IT systems. Furthermore, Treasury has announced plans for a new Treasury Strategic Plan. This plan places more management responsibility at the Treasury level and filters this responsibility through the Treasury bureaus.

### **Ongoing/Planned Work**

A recent audit of Treasury's implementation of the Information Technology Management Reform Act (ITMRA) noted that Treasury remains in the early stages of ITMRA implementation. Improvements are needed in Treasury's ability to manage, evaluate and make strategic decisions regarding the Treasury's portfolio of IT initiatives and ongoing operations.

In addition, we are planning an audit of Treasury's system development practices, as they are applied to a major initiative, in order to develop a new corporate human resource system. The life cycle cost of this system is estimated to be \$343 million. We are also assessing the need for additional audits.

**SUMMARY OF THE MOST SERIOUS MANAGEMENT  
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**MONEY LAUNDERING/BANK SECRECY**

It is estimated that hundreds of billions of dollars a year are laundered globally. The Money Laundering and Financial Crimes Strategy Act of 1998 called for the development of a five-year anti-money laundering strategy. The National Money Laundering Strategy for 1999, issued jointly in September 1999 by Treasury and the Department of Justice, sets forth an ambitious agenda of actions designed to advance four broad goals: (1) strengthening domestic law enforcement; (2) enhancing steps taken by financial institutions to prevent and detect money laundering; (3) partnering with state and local authorities; and, (4) bolstering international cooperation. This strategy reflects a national commitment to a coordinated, effective fight against money laundering. It calls for a focused attack on high-risk money laundering zones. As a result, Treasury bureaus, especially the United States Customs Service (Customs) and the Financial Crimes Enforcement Network (FinCEN), have increased responsibilities.

Audits we have performed at Customs and FinCEN have identified opportunities for better dissemination and use of the data available from the filing of Currency Transaction Reports, Suspicious Activity Reports and Currency or Monetary Instruments Reports. Money laundering enforcement efforts have been hindered by law enforcement and regulatory agencies' lack of awareness of what data is available from FinCEN. Also, we identified problems with the ease of accessing and using FinCEN databases. Recent audits of the Office of the Comptroller of the Currency's (OCC) Bank Secrecy Act examinations of domestic national banks have identified areas where improvement is needed.

Ongoing/Planned Work

The Office of Inspector General (OIG) has a number of audits ongoing or planned in order to address money laundering issues at Treasury. These audits cover areas such as assessing FinCEN's use of artificial intelligence to combat money laundering, assessing FinCEN's enforcement of civil money penalties on financial institutions, and evaluating

**SUMMARY OF THE MOST SERIOUS MANAGEMENT  
CHALLENGES AND RELATED ONGOING AND PLANNED WORK**

the adequacy of Bank Secrecy Act examinations at OCC and the Office of Thrift Supervision. In addition, we are planning to review FinCEN's efforts to deter and detect money laundering in casinos; Treasury's efforts to streamline Currency Transaction Reports; and Treasury's efforts to detect money laundering by foreign criminal organizations in United States financial institutions.

**INFORMATION SECURITY**

The need for adequate security in order to protect data from unauthorized access and in order to ensure the reliability of computerized data is critical for Treasury and the Government as a whole. Although IT enables the Treasury to achieve its business priorities, IT also has the potential to heighten existing internal control challenges and to pose new challenges for Treasury to address. As connectivity and access to information increases, so do the threats to security. It is necessary to respond quickly to ever-changing business, technical and legislative challenges. Presidential Decision Directive 63 sets as a goal the development of a reliable, interconnected, and secure information system infrastructure by the year 2003, and the development of a significantly increased security system for the Federal Government by the year 2000.

Developing a secure IT environment will help Treasury protect its information resources and infrastructure from information warfare, terrorist and criminal activities. It will allow Treasury to conduct its transactions with other agencies and external customers in a safe and secure manner. Treasury has made progress in achieving some of their security goals such as the establishment of their architecture in the Treasury Information System Architecture Framework and in their development of Public Key Infrastructure standards for a secure IT environment. However, major computer systems at several Treasury bureaus are vulnerable to unauthorized access. Additional risks stem from Treasury's efforts to make these systems Year 2000 compliant. This effort was addressed under severe time constraints that could have resulted in a weakening of controls over the integrity of data and programs.

## **SUMMARY OF THE MOST SERIOUS MANAGEMENT CHALLENGES AND RELATED ONGOING AND PLANNED WORK**

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### Ongoing/Planned Work

Controls of data security are reviewed as a part of the annual audits of bureau financial statements performed by the OIG, General Accounting Office (GAO), or independent public accountants under contract with the OIG. As part of this work, auditors follow-up on the progress made in correcting previously identified weaknesses. Data security weaknesses continue to be identified at Treasury and its bureaus as part of our EDP general controls testing. Also, we will observe the penetration testing to be performed as part of these financial statement audits.

Additionally, we are planning a multi-bureau audit of Treasury information system security and we have planned a review of Treasury's Critical Infrastructure Protection Plan. This review will consider whether Treasury is adequately planning and managing its coordination efforts for the protection of its critical infrastructures.

### **VIOLENT CRIME/GUN CONTROL**

Violent crime continues to be a serious problem in the United States despite reports of a decline in the overall crime rate. Violent crime is still the nations's number one public safety concern. The reduction of violent crime is one of Treasury's goals in its Strategic Plan and one of the Bureau of Alcohol, Tobacco and Firearms' (ATF) three Strategic Goals. In FY 2000, 77 percent (\$460.8 million) of ATF's budget will be directed to reducing violent crime.

ATF has primary enforcement jurisdiction for enforcing the proper use of federal firearms, and explosives. ATF enforces provisions of the Gun Control Act of 1968, the National Firearms Act (NFA), the Brady Law, and the Violent Crime Control and Law Enforcement Act of 1994. ATF's role is very important because ATF is involved in every facet of gun control. ATF inspects firearms dealers, investigates potential firearms buyers who are denied the right to purchase firearms under the Brady Law, investigates illegal sources of firearms, and traces guns that are used in crimes, and provides ballistics technology. ATF is also responsible for the enforcement of arson laws including investigating all church arsons, and for providing investigative assistance in incidents where explosives were used.

## **SUMMARY OF THE MOST SERIOUS MANAGEMENT CHALLENGES AND RELATED ONGOING AND PLANNED WORK**

There has been recent criticism that the current gun control laws are not enforced. As a result, ATF has a prominent role in reducing violent crime and enforcing gun control. Their effectiveness in enforcing the laws under their jurisdiction will come under closer scrutiny.

Prior work has identified weaknesses in approving applicants for a Federal Firearms License (firearms dealers). ATF's efforts to determine the eligibility of applicants were hindered by the unavailability of such information and weaknesses in the criminal history record system. In some instances, background checks were not performed at all.

### **Ongoing/Planned Work**

We are currently reviewing ATF's Youth Crime Interdiction Initiative program via a series of audits that are looking at different components of the program. We are also reviewing ATF's investigative cases in order to determine if ATF is focusing its investigative efforts on preventing violent crime. We plan to review ATF's procedures for investigating referrals from the National Instant Criminal Background Check System used for firearm purchases. Treasury's counterterrorism coordination efforts are also being reviewed.

## **TRADE ENFORCEMENT AND NARCOTICS INTERDICTION BY CUSTOMS**

The mission of Customs is to ensure that all goods and persons entering and exiting the United States do so in accordance with laws and regulations. On the import side, in FY 2000, Customs expects to process 477 million persons and 138 million conveyances, collect \$22 billion in revenue, and release cargo for 24 million entry summaries valued at \$1.1 trillion. The development, maintenance, and security of fully integrated automated systems is the most critical issue at Customs.

The OIG and GAO have informed Congress that Customs' existing import processes and supporting systems are simply not responsive to the business needs of either Customs or the trade industry. Customs recognizes that its ability to process the growing volume of imports, while improving compliance with trade laws, depends heavily on their modernization of the trade compliance process and related supporting automated systems. The success of this effort is

## **SUMMARY OF THE MOST SERIOUS MANAGEMENT CHALLENGES AND RELATED ONGOING AND PLANNED WORK**

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contingent on how well and how soon Customs is able to implement the Automated Commercial Environment (ACE).

Customs also functions as the primary border enforcement agency with responsibility for preventing the entry of illegal narcotics into the United States. Customs inspection, investigative, intelligence, canine, marine, and air interdiction activities have been combined with the activities of other agencies in their supply reduction efforts. Despite many years of concerted Federal effort, the unrelenting and well-financed drug smuggling threat continues unabated. Prior and ongoing OIG audits have disclosed problems with Customs' targeting systems. A recent audit disclosed that better narcotics examination criteria needs to be developed. We also observed a lack of consistency in the performance and reporting of narcotics examinations.

On the export side, national concerns over the acquisition of critical United States military technologies by certain foreign governments has been at the forefront of news headlines and Congressional interest over the past two years. These concerns prompted Congressional reviews such as the Cox Commission's assessment of security at national weapons laboratories, and Senator Thompson's interagency review of the adequacy of export licensing procedures over dual-use commodities and munitions.

During FY 1999, Treasury OIG participated with the Departments of Commerce, Defense, Energy, State, and Central Intelligence Agency OIGs in their joint-review of export licensing procedures for dual-use commodities and munitions requested by Senator Thompson. This effort identified the weaknesses in controls over dual-use exports and the improvements needed in Customs' export enforcement program. Although specific recommendations were made to improve Customs' export enforcement procedures and controls, the improvements to the overall licensing process will require a joint effort by Customs, Department of Commerce, and State Department officials.

### Ongoing/Planned Work

Our ongoing work addresses Customs' implementation of the Operation Hard-line, the intelligence program, cargo



**SUMMARY OF THE MOST SERIOUS MANAGEMENT  
CHALLENGES AND RELATED ONGOING AND PLANNED WORK**

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selectivity, courier hubs, the automated manifest system, and the use of high technology equipment.

During FY 2000, we plan to conduct audits of Customs' Air Marine Interdiction Programs as well as Customs' interdiction and funding activities in Puerto Rico.

Treasury OIG is currently participating in the joint OIG review of export controls and counter-intelligence measures in order to prevent the acquisition of United States military technologies as mandated by the National Defense Authorization Act for FY 2000. An initial assessment is due by March 31, 2000, with annual reporting required through FY 2007.

**REVENUE PROTECTION**

In FY 1998 Customs collected approximately \$22.1 billion in duties, taxes, and fees, making it Treasury's largest source of revenue second only to the Internal Revenue Service (IRS). The ATF collected another \$12.4 billion in FY 1998 from alcohol, tobacco and firearms excise taxes, fees, penalties, and interest payments. Stronger internal controls and system improvements would undoubtedly increase revenues collected by both bureaus. Customs could significantly reduce lost revenue through its planned large-scale system improvements. This is a major and costly challenge, but would place Customs in a better position to handle electronic commerce and control the hundreds of millions it collects in user fees and duties. ATF needs to strengthen its financial management controls in order to ensure that hundreds of millions in excise taxes do not escape collection.

Customs is faced with an increasing workload that is outpacing any growth in its staffing or funding. Customs continues to rely on its outdated Automated Commercial System (ACS) to monitor imported goods and collect billions of dollars in duties and fees. Imports are now valued at nearly \$1.1 trillion per year and are expected to double in five years. Yet, Customs, which greatly relies on its computer systems to manage this workload, has serious computer problems that have reduced the bureau's ability to handle this workload.

## **SUMMARY OF THE MOST SERIOUS MANAGEMENT CHALLENGES AND RELATED ONGOING AND PLANNED WORK**

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In a recent audit, we found that a computer programming error in Customs' Seized Asset and Case Tracking System resulted in Customs' failing to issue \$585 million in bills to surety companies over a one-year period.

ATF's collection of excise taxes is also a concern. We found in a recent audit of 17 sampled distilled spirits producers that ATF could potentially assess \$66.6 million in additional taxes based on inadequate export documentation. We also found that ATF may not have reviewed other claimed distilled spirits exports with an aggregate tax value of \$560 million for 1996 and 1997. ATF records showed that 73 producers claimed to have exported distilled spirits with a tax value of \$3.25 billion in FY 1998.

### Ongoing/Planned Work

The OIG has a number of ongoing and planned audits dealing with revenue protection issues. For example, an ongoing OIG audit is reviewing the Customs Air Automated Manifest System (AMS). An OIG 1996 financial statement audit had uncovered a design flaw that could result in vulnerabilities for Customs in processing cargo through AMS. The current audit is reviewing AMS to determine the impact of these vulnerabilities.

In addition, at ATF a follow-on to the completed audit of distilled spirits producers, discussed above, will involve reviewing a sample of tobacco producers to determine if the same problem that exist with alcohol producers also exists on the tobacco side. Specifically, the audit will determine if ATF's diversion policies and procedures are adequate to protect against millions of dollars in lost revenue.

Further, we plan on conducting several other Customs and ATF audits in FY 2000, including an audit of ATF revenue inspection activity, Customs collection of Merchandise Processing Fees, and a follow-up to a 1997 audit of ATF's collection of Special Occupational Taxes. That audit found ATF had failed to collect an estimated \$64 million in Special Occupational Taxes over the 3-year period ending in 1995.

**SUMMARY OF THE MOST SERIOUS MANAGEMENT  
CHALLENGES AND RELATED ONGOING AND PLANNED WORK**  
**IMPLEMENTATION OF THE GOVERNMENT PERFORMANCE AND RESULTS ACT**

The GPRA requires Federal agencies to more effectively plan, budget, execute, evaluate, and account for their programs and activities. A key challenge for Treasury has been to integrate their performance planning and reporting activities as required by GPRA with their budget formulation and execution activities, and annual financial reporting activities required by the Chief Financial Officers (CFO) Act and Government Management Reform Act (GMRA).

Another critical challenge has been for Treasury to develop and implement managerial cost accounting as an integral component of financial and performance reporting. Effective managerial cost accounting is necessary to provide reliable and timely information on the full costs of programs, activities, and outputs. Accurate cost information enables the Congress and Federal program managers to make informed decisions about resource allocation and program performance. The linkage of costs with outputs, by responsibility segment and activity, is essential for meaningful and informative reporting and cost/benefit analysis under GPRA.

To Treasury's credit, Treasury and its bureaus have been reporting performance measures and have been submitting their plans as part of their budget submissions since 1996. Also, Treasury has made substantial improvements to its strategic plan in response to GAO's reviews and has reassessed its strategic goals in both the overall Treasury plan and the individual Treasury bureaus' plans.

In the past year the OIG has conducted a series of audits looking at the accuracy and reliability of key performance measures at selected bureaus. In each audit, weaknesses were identified with both the accuracy and reliability of the underlying data. While Treasury's organizations have made progress, weaknesses in Treasury's data systems will continue to present challenges in producing accurate and reliable data for their performance measures.

Ongoing/Planned Work

Performance measures are required to be presented in the annual financial statements required by the CFO Act and

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GMRA. As required by OMB Bulletin No. 97-01, *Audit Requirements for Federal Financial Statements*, the OIG performs limited procedures on these performance measures in connection with their annual financial statement audits. In addition, the OIG has performed a significant amount of FY 1999 work at individual bureaus and has recently planned additional work for FY 2000. The OIG developed a program to assess the appropriateness, reliability, and validity of Treasury's performance measures and the data and information supporting the measures. To ensure this effort, the OIG will assess Strategic Planning, Data Reliability and Customer Satisfaction.

**FINANCIAL MANAGEMENT AT TREASURY COMPLIANCE WITH FFMIA**

Treasury continues to face significant challenges in order to meet the requirements of the Federal Financial Management Improvement Act of 1996 (FFMIA). FFMIA requires that Federal agencies implement and maintain financial management systems that comply substantially with Federal financial management system requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger at the transaction level. As reported in connection with our audit of Treasury's FY 1998 financial statements, Treasury is not in substantial compliance with the requirements of FFMIA.

We identified instances of non-compliance with the requirements of FFMIA at six Treasury component entities, to include the IRS, Customs, Financial Management Service (FMS), Secret Service, Bureau of the Mint and Treasury Forfeiture Fund. These entities, except for the IRS, managed to obtain unqualified audit opinions on their FY 1998 financial statements. However, this was achievable only through extensive efforts after year-end to overcome material weaknesses in internal controls and develop auditable financial information. Also, financial systems were not adequately integrated to support fiscal management of program delivery as well as budget execution functions and internal and external financial reporting requirements. These conditions precluded the ability to generate timely and accurate information during the year for operating and decision-making purposes, as well as for annual financial reporting.

## **SUMMARY OF THE MOST SERIOUS MANAGEMENT CHALLENGES AND RELATED ONGOING AND PLANNED WORK**

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The most critical challenges for Treasury are to firmly address major financial management problems which have been reported at the IRS since financial statement audits were initiated in FY 1992 under the CFO Act. This will require the full commitment and engagement of IRS executive management to develop and implement an effective remediation plan.

Treasury is also responsible for preparing the U.S. Government financial statements, which are audited by GAO. GAO has reported that the Federal Government is not able to properly and consistently compile financial statements, identify and eliminate intragovernmental transactions, and reconcile the results of operations in the financial statements with the budget results. Many of these problems are attributable to inaccurate or incomplete financial information provided to Treasury by other Federal agencies. However, concerted and coordinated efforts are needed at Treasury and other Federal agencies to address these problems.

### Ongoing/Planned Work

The annual financial statement audits required by the CFO Act and the GMRA are the primary vehicle for reporting whether Treasury and its major component entities are in substantial compliance with the financial management system requirements of FFMIA. As required by FFMIA, we will also evaluate Treasury's remediation plans and report to Congress instances and reasons when intermediate target dates established in the remediation plans have not been met.

As part of our FFMIA reporting, we work closely with GAO to identify and evaluate deficiencies related to Government financial reporting for which corrective actions are needed at Treasury.

**SUMMARY OF THE MOST SERIOUS MANAGEMENT  
CHALLENGES AND RELATED ONGOING AND PLANNED WORK**

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**DELETED FROM LAST YEAR'S LIST OF  
SIGNIFICANT MANAGEMENT CHALLENGES**

**DEBT COLLECTION INITIATIVES AND ELECTRONIC FUNDS TRANSFER**

The OIG has removed debt collection initiatives and electronic funds transfer (EFT) from the list of top issue areas for Treasury due to the extent of work that has recently been performed by the OIG and other entities, including the GAO. The OIG believes that delinquent debt and EFT are still priority issues, however, and plans to perform additional audits and to continue oversight of the progress that is being made regarding these two initiatives.

With reference to debt collection initiatives, the OIG led a Government-wide review of non-tax delinquent debt, which included audits of three Treasury bureaus. The OIG found that Federal agencies have worked diligently towards meeting the objectives of the Debt Collection Improvement Act of 1996 (DCIA), and that progress has been made in collecting Federal non-tax delinquent debt. In addition, the OIG conducted reviews of the and FMS' cross-servicing procedures and processes, and FMS' oversight of private collection agencies. The OIG found that these processes are generally effective in reducing non-tax delinquent debt. In general, management concurred with the recommendations made by the OIG in these reports, and corrective actions have been planned or taken to enhance Federal debt collection efforts.

In terms of future work, the OIG has included in its *Office of Audit Annual Plan for FY 2000* a review of (1) FMS' Implementation of DCIA Regulations; and (2) Treasury's Offset Program. These audits will provide further assurance that material weaknesses concerning the debt collection area have been identified and addressed.

With reference to EFT, an OIG audit concluded that, despite FMS and Treasury's efforts toward meeting the January 1, 1999, implementation date imposed by the DCIA, the EFT mandate was not fully achieved. FMS has taken into consideration the aggressive EFT timetable, about which there has been ongoing Congressional concern, and has included in their final ruling a provision that allows an automatic waiver for individuals who do not have an account with a financial institution. In addition, FMS has set more

**SUMMARY OF THE MOST SERIOUS MANAGEMENT  
CHALLENGES AND RELATED ONGOING AND PLANNED WORK**

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realistic performance measures, using a phased-in approach, which will be enhanced by the availability of the Electronic Transfer Account (ETA). We recommended, and FMS management agreed, to expedite efforts to release the ETA Notice. FMS expects financial institutions to offer the accounts beginning in the fall of 1999. FMS management also agreed to our recommendation to closely monitor the progress of Federal agency EFT participation rates. Higher participation rates are expected to continue in the coming years.

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**TREASURY'S INFORMATION TECHNOLOGY INVESTMENT MANAGEMENT**

1. **Follow-up Audit on Treasury's Oversight of Internal Revenue Service's Tax System Modernization, OIG-99-012, November 11, 1998**
  - Management needs to ensure that critical planning steps are taken when "cutting" the service centers over to one computing center. This includes ensuring the following: (1) that there is complete integration and production testing of service centers; (2) that staff are available for critical positions; and (3) that security and disaster recovery risks are mitigated. In addition, additional resources should be provided to adequately define and validate the delivery order requirements until all requirements are definitized for price negotiations. **(Eleven Significant Recommendations)**

**MONEY LAUNDERING/BANK SECRECY**

2. FinCEN's Compliance with the Money Laundering Suppression Act Relating to Non-Bank Financial Institutions, OIG-97-098, June 12, 1997<sup>1</sup>
3. The Financial Crimes Enforcement Network Suspicious Activity Reporting System, OIG-99-032, January 25, 1999
4. United States Department of the Treasury Audit of Bank Secrecy Act Reporting, OIG-99-081, April 30, 1999
5. United States Customs Service Audit of Customs' Money Laundering Initiatives, OIG-99-102, August 3, 1999

**INFORMATION SECURITY**

6. Year 2000 Compliance Effort at OCC, OIG-99-029, January 12, 1999
7. Year 2000 Compliance Effort at FinCen Network, OIG-99-036, January 27, 1999

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<sup>1</sup> Although outside the above reporting period, due to the significance of this audit, it is included in this Enclosure.



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**8. Year 2000 Compliance Effort at the Department Offices,  
OIG-99-038, February 25, 1999**

- The Deputy Assistant Secretary for Administration should ensure the development and implementation of Y2K performance measurements and contingency plans for core business functions, and should ensure that contingency planning includes incrementally defined tasks and milestone dates. **(Three Significant Recommendations)**

**9. Audit of the Treasury Communications System (TCS)  
Automated Information Systems (AIS) Security Program,  
OIG-99-039, February 24, 1999, Limited Official Use<sup>2</sup>**

- The TCS is a private wide-area communications network designed and operated under contract for Treasury. The OIG found that the program office responsible for the contract, Corporate Systems Management, had not fully implemented an AIS security program as required by Office of Management and Budget Circular A-130, *Management of Federal Information Resources*. **(Eleven Significant Recommendations)**

**10. Year 2000 Compliance Effort at the Bureau of Engraving  
and Printing (BEP), OIG-99-058, March 24, 1999**

- The Director of BEP should ensure that a formal certification process is developed and should ensure that contingency plans be revised, implemented and tested. **(Two Significant Recommendations)**

**11. Year 2000 Compliance Efforts at the Financial Management  
Services (FMS), OIG-99-083, May 10, 1999**

- The Assistant Secretary for Management should ensure a disciplined change management process, should ensure that data exchanges with external partners are documented, and should ensure that contingency plans for core business functions are prepared and tested. **(Three Significant Recommendations)**

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<sup>2</sup> This report has limited official use and recommendations should not be released to the general public.

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**12. Audit of Customs Continuity of Operations Capability,  
OIG-99-109, August 23, 1999, Limited Official Use<sup>2</sup>**

- In our *Report on the U. S. Customs Service's Fiscal Year 1998 Financial Statements*, OIG-99-50, March 17, 1999, we identified significant deficiencies in Customs' ability to provide for timely restoration of their mission-critical systems that, in our view, would impair Customs' ability to respond effectively to a disruption in operations. We issued a follow-up report, *Audit of the U. S. Customs Service's Continuity of Operations Capability*, OIG-99-109, August 23, 1999, in order to provide details relating to the significant impact of these deficiencies in their disaster recovery capabilities. **(Eight Significant Recommendations)**

**13. Year 2000 Systems Compliance Testing and Contingency Planning for Business Continuity at the United States Mint, OIG-99-110, August 24, 1999, Limited Official Use<sup>2</sup>**

- The Director of the Mint should ensure that business continuity plans are complete and tested and that certification of these plans is forwarded to the Department. **(Two Significant Recommendations)**

**VIOLENT CRIME/GUN CONTROL**

**14. Bureau of Alcohol, Tobacco and Firearms' Firearms Enforcement Strategy, OIG-98-062, March 13, 1998**

**15. Bureau of Alcohol, Tobacco and Firearms' Integrated Ballistics Identification System, OIG-98-069, March 31, 1998**

- ATF should establish a baseline level of activity in order to ensure that the IBIS program focuses on those locations where IBIS is most needed, and ATF should assess the impact on local law enforcement of

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<sup>2</sup> This report has limited official use and recommendations should not be released to the general public.

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the interoperability of IBIS with FBI's competing technology system. **(Two Significant Recommendations)**

**16. Bureau of Alcohol, Tobacco and Firearms' Violent Offender Program, OIG-98-086, May 13, 1998**

- ATF needs to regularly review program goals that are set for each field office and needs to ensure that each field office maintains accurate records for the program. Also, ATF needs to establish a dialogue with the NCIC and State agencies in order to determine if data exists which would permit easier identification of criminals entering the program. **(Three Significant Recommendations)**

**17. Bureau of Alcohol, Tobacco and Firearms' Administration Of National Firearms Registration and Transfer Record, OIG-99-009, October 28, 1998**

**18. Bureau of Alcohol, Tobacco and Firearms' Administration of National Firearms Registration and Transfer Record, OIG-99-018, December 18, 1998**

- ATF should complete actions to eliminate discrepancies in the registry's database and perform regular reviews of this database for accuracy and completeness. Also, ATF should determine the extent to which it can legally obtain data in order to update the registry so that the registry reflects all persons currently in possession of NFA weapons. **(Two Significant Recommendations)**

**TRADE ENFORCEMENT AND NARCOTICS INTERDICTION BY CUSTOMS**

19. Final Report on the Advance Passenger Information System, OIG-98-033, March 9, 1998
20. Final Report on the Treasury Enforcement Communication System Users Needs, OIG-98-060, March 11, 1998
21. Customs Service's Effort to Prevent Narcotics Smuggling in Line Release Cargo Shipments, OIG-98-085, May 13, 1998

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22. Customs Service Laboratories, OIG-98-103,  
July 10, 1998
23. **The Inbound Rail Cars on the Southern Border,  
OIG-99-006, October 21, 1998, Limited Official Use<sup>2</sup>**
- Customs should ensure that the objectives of the November 1977 plan are expanded to address the need for specific detailed strategies for the assignment of personnel and the examination of rail cars. Also, the plan should be reviewed on an ongoing basis and strategies should be modified as new information becomes available. **(Four Significant Recommendations)**
24. **Inbound Rail Cars on the Northern Border, OIG-99-077,  
April 8, 1999, Limited Official Use<sup>2</sup>**
- Customs should complete a Northern border strategy to ensure sufficient narcotic examinations are performed on in bound rail shipments. Additionally, Customs needs to (1) implement a technology and resource plan to ensure inspection equipment is allocated to ports on a sound basis; and (2) address security weaknesses at points of entry. **(Two Significant Recommendations)**
25. **Interagency Review of Export Licensing Procedures,  
OIG-99-090, June 15, 1999, Limited Official Use<sup>2</sup>**
- In conjunction with Department of Commerce officials, Customs should initiate a study to determine whether a legislative solution can be found to minimize or discontinue post-departure export reporting practices. Customs and Commerce officials should meet to discuss methods of strengthening export controls over licensed shipments and improving the timeliness of responses to license determination queries. Customs should also work with Department of Commerce and State licensing officials to ascertain

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<sup>2</sup> This report has limited official use recommendations should not be released to the general public.

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whether improvements can be made to the license screening support provided. Other recommendations were made to improve the overall efficiency and effectiveness of Customs' export Enforcement controls and procedures. Since the report was issued just a few months ago, Customs is still in the process of addressing related recommendations. **(Eleven significant recommendations)**

26. Audit of United States Customs Service's Controls Over High Intensity Drug Trafficking Funds , OIG-99-094, June 24, 1999, Limited Official Use.<sup>2</sup>

**REVENUE PROTECTION**

27. **Bureau of Alcohol, Tobacco and Firearms Controls Over Tax Free Exports, OIG-99-123, September 15, 1999, Limited Official Use<sup>2</sup>**

- The Director of ATF should send tax assessment letters based on the \$66.6 million in distilled spirits exports for which documentation was either not submitted or was inadequate; should amend the Code of Federal Regulations to provide additional guidance defining adequate export evidence; and, after reconciling the \$560 million in open items in ATF's tracking logs, should initiate action, before the 3-year statute of limitations expires, to assess excise taxes where documentation is inadequate. **(Three significant recommendations)**

28. United States Customs Service: Audit of Customs Passenger User Fees, OIG-98-083, May 1, 1998
29. Customs Service's Oversight of Consolidated Omnibus Budget Reconciliation Act User Fees, OIG-98-096, July 1, 1998
30. Audit of the United States Customs Service Mitigation of Penalties, OIG-99-007, October 21, 1998

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<sup>2</sup> This report has limited official use and recommendations should not be released to the general public.

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**IMPLEMENTATION OF THE GOVERNMENT PERFORMANCE AND RESULTS ACT**

**31. Financial Management Service's Strategic  
Planning Process, OIG-97-E06, September 1999**

- More emphasis is needed on performing quality casework and less emphasis is needed on meeting production goals. (**One Significant Recommendation**)

**FINANCIAL MANAGEMENT AT TREASURY/COMPLIANCE WITH FFMIA**

*Audited FY 1998 financial statements were issued by the OIG for 28 Treasury entities as listed below. Significant audit recommendations which remained open from the FY 1997 audits of these entities are also included.*

**32. Report on the Department of Treasury's Fiscal Year 1998  
Financial Statements, OIG-99-054, March 25, 1999**

- The Deputy Secretary of the Treasury, and the Assistant Secretary for Management and Chief Financial Officer should ensure that the IRS develops and implements an appropriate corrective action plan that will fully address the material weaknesses and reportable conditions identified in the FY 1998 IRS audit report. Further, the department's Chief Information Officer should develop a plan to strengthen EDP general controls over financial systems. (**Two Significant Recommendations**)

**33. Report on the United States Customs Service's Fiscal  
Year 1998 and 1997 Financial Statements, OIG-99-050,  
March 17, 1999**

- Customs needs to improve and integrate core financial systems, and accelerate efforts to ensure the timely restoration of mission critical systems in the event business operations are disrupted. (**Six Significant Recommendations**)

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34. Audit of the Bureau of Alcohol, Tobacco and Firearms Fiscal Year 1998 Financial Statements, OIG-99-053, March 19, 1999
35. **Audited Fiscal Year 1998 Financial Statements of the Treasury Forfeiture Fund, OIG-99-076, April 5, 1999**
- The Treasury Forfeiture Fund (TFF) should implement procedures to properly account for transactions on the accrual basis of accounting. All of TFF's balances and transactions should be captured by the Asset Information Management System (general ledger). Short falls associated with SEACATS should be corrected to allow for full tracking of all property and currency. Further, TFF should provide guidance or policy to all law enforcement agencies participating in the fund in order to strengthen accountability controls over seized and forfeited assets. **(Eleven Significant Recommendations)**
36. **Audited Fiscal year 1998 Financial Statements of FMS' Salaries and Expenses Appropriations, and Miscellaneous Accounts OIG-99-074, March 31, 1999**
- FMS should establish and implement adequate controls over property, plant and equipment. Further, reconciliation of the Fund Balance with Treasury to the Federal Financial System Balances and Miscellaneous Account General Ledger Balances should be performed and adequately documented. **(Six Significant Recommendations)**
37. **Audited Calendar year 1998 and 1997 Financial Statements of the United States Mint, OIG-99-078, April 7, 1999**
- The Mint's system integration project needs to be aggressively pursued. **(One Significant Recommendation)**
38. **Audited Calendar Year 1998 Financial Statements of the Office of the Comptroller of the Currency, OIG-99-134, September 30, 1998**

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- The OCC should reemphasize the importance of timely reconciliation procedures to those responsible for their performance and enforce reasonable deadlines for their completion. Account analysis and other significant accounting tasks need to be performed and subjected to supervisory review. Further, an adequate process needs to be in place for review and evaluation of the accounting treatment for unusual or non-routine financial events. (**Twelve Significant Recommendations**)
39. Audited Statements of Custodial Gold and Silver Reserve for the United States Mint as of September 30, 1998, OIG-99-037, March 15, 1999
  40. Audited Fiscal Year 1998 and 1997 Financial Statements of the Community Development Financial Institutions Fund, OIG-99-056, March 19, 1999
  41. Audited Fiscal Year 1998 Financial Statements of the Bureau of Engraving and Printing, OIG-99-055, March 19, 1999
  42. Audited Fiscal Year 1998 and 1997 Financial Statements of the Exchange Stabilization Fund, OIG-99-071, March 29, 1999
  42. Audited Fiscal Year 1998 and 1997 Financial Statements of the Federal Financing Bank, OIG-99-057, March 22, 1999
  44. Report on Controls Placed in Operation and Test of Operating Effectiveness for the Treasury Bureau of Public Debt/Investment Branch, OIG-99-051, March 16, 1999 (SAS 70 Report).
  45. Report on the Treasury Bureau of the Public Debt Trust Fund Management Branch Custodial Financial Statement for the Unemployment Trust Fund for the Year Ended September 30, 1998, OIG-99-059, March 23, 1999



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46. Report on the Treasury Bureau of the Public Debt Trust Fund Management Branch Custodial Financial Statement for the Hazardous Substance Super Fund Trust Fund for the Year Ended September 30, 1998, OIG-99-061, March 23, 1999
47. Report on the Treasury Bureau of the Public Debt Trust Fund Management Branch Custodial Financial Statement for the Federal Old Age and Survivors Insurance Trust Fund for the Year Ended September 30, 1998, OIG-99-062, March 23, 1999
48. Report on the Treasury Bureau of the Public Debt Trust Fund Management Branch Custodial Financial Statement for the Federal Disability Insurance Trust Fund for the Year Ended September 30, 1998, OIG-99-063, March 23, 1999
49. Report on the Treasury Bureau of the Public Debt Trust Fund Management Branch Custodial Financial Statement for the Black Lung Disability Trust Fund for the Year Ended September 30, 1998, OIG-99-064, March 23, 1999
50. Report on the Treasury Bureau of the Public Debt Trust Fund Management Branch Custodial Financial Statement for the Airport and Airways Trust Fund for the Year Ended September 30, 1998, OIG-99-065, March 23, 1999
51. Report on the Treasury Bureau of the Public Debt Trust Fund Management Branch Custodial Financial Statement for the Aquatic Resources Trust Fund for the Year Ended September 30, 1998, OIG-99-066, March 23, 1999
52. Report on the Treasury Bureau of the Public Debt Trust Fund Management Branch Custodial Financial Statement for the Federal Supplementary Medical Insurance Trust Fund, for the Year Ended September 30, 1998, OIG-99-067, March 23, 1999
53. Report on the Treasury Bureau of the Public Debt Trust Fund Management Branch Custodial Financial Statement for the Oil Spill Liability Trust Fund for the Year Ended September 30, 1998, OIG-99-068, March 23, 1999

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- 54. Report on the Treasury Bureau of the Public Debt Trust Fund Management Branch Custodial Financial Statement for the Federal Hospital Insurance Trust Fund for the Year Ended September 30, 1998, OIG-99-069, March 23, 1999
- 55. Report on the Treasury Bureau of the Public Debt Trust Fund Management Branch Custodial Financial Statement for the Highway Trust Fund for the Year Ended September 30, 1998, OIG-99-070, March 23, 1999
- 56. Report on the Schedule of Loans Receivable from Federal Entities, OIG-99-060, March 23, 1999
- 57. Audited Calendar Year 1998 and 1997 Financial Statements of the Office of Thrift supervision, OIG-99-089, June 7, 1999
- 58. Audited Departmental Offices Fiscal Year 1998 Accountability Report and Consolidated Financial Statements, OIG-99-072, March 26, 1999
- 59. Report on the Audited Fiscal Year 98 Financial Statements of the International Assistance Program, OIG-99-073, March 31, 1999

**DELETED FROM LAST YEAR'S LIST OF SIGNIFICANT  
MANAGEMENT CHALLENGES**

**DEBT COLLECTION INITIATIVES**

- 60. The Financial Management Service On-Line Payment and Collection System, OIG-CA-98-001, February 23, 1998
- 61. Effective Planning and Management Are Needed for the Development of an Automated System to Administer the Debt Collection Improvement Act of 1996, OIG-98-110, August 20, 1998
- 62. Financial Management Service's Cross-Servicing Program, OIG-99-104, August 10, 1999

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- 63. Review of the Effectiveness of the Financial Management Service's Oversight of Private Collection Agencies, OIG-99-117, September 2, 1999
- 64. PCIE/ECIE Review of Non-Tax Delinquent Debt - United States Customs Service, OIG-00-001, October 5, 1999<sup>1</sup>
- 65. PCIE/ECIE Review of Non-Tax Delinquent Debt - United States Secret Service, OIG-00-002, October 5, 1999<sup>1</sup>
- 66. PCIE/ECIE Review of Non-Tax Delinquent Debt - Treasury Departmental Offices, OIG-00-003, October 5, 1999<sup>1</sup>

**ELECTRONIC FUNDS TRANSFER**

- 67. Department of the Treasury's Resolution of Risks Associated with the Electronic Benefits Transfer Program, OIG-98-081, April 27, 1998
- 68. Financial Management Service's Implementation of Electronic Funds Transfer, OIG-99-075, April 2, 1999

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<sup>1</sup> Although outside the above reporting period, due to the significance of this audit, it is included in this Enclosure.